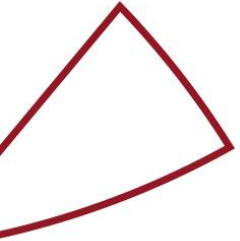
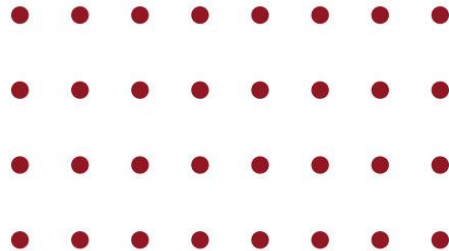


Class 14

UG3F14 Corporate Finance



GBSB GLO
BUSINESS SCHOOL

Class 14 Topics and Content

- *Dividends, and Dividend Policy*

- The Concept and Relevance of the Dividends, and the impact in the Business Value
- Types of Dividend
- Other Pay outs

Class 14

- Dividends, and Dividend Policy

- The Concept and Relevance of the Dividends
 - ✓ Profits generated by businesses is accumulated retained earnings, those earnings can be either reinvested in the business, buy back shares or paid out to shareholders as a dividend - is a share of profits and retained earnings that a company pays out to its shareholders
 - ✓ A firm's dividend policy refers to its choice of whether to pay out cash to shareholders, in what fashion, and in what amount
 - ✓ A dividend's value is determined on a per-share basis and is to be paid equally to all shareholders of the same class (common, preferred, etc.)
 - ✓ The payment must be approved by the Board of Directors, and when a dividend is declared, it will then be paid on a certain date- payable date

Class 14

- *Dividends, and Dividend Policy:*

- The Concept and Relevance of the Dividends
 - ✓ Dividends are an important consideration when investing in the share market as they provide a reliable source of return, and an incentive for investors to keep investing in the firm
 - ✓ Dividend payments are reliant on the company's profitability, so they are not always directly correlated to the share price/profits like for example ARAMCO
<https://www.spglobal.com/platts/en/market-insights/latest-news/oil/040121-aramco-may-slash-dividend-payment-to-boost-saudi-economic-growth-plan>
 - ✓ The frequency of dividend payments is often aligned with the announcement of company profits: quarterly, semi-annually, or annually

Class 14

- Dividends, and Dividend Policy:

- The Concept and Relevance of the Dividends
 - ✓ Paying dividends allows companies to share their profits with shareholders, which helps to thank shareholders for their ongoing support via higher returns and to incentivize them to continue holding the stocks
 - ✓ Consistent dividends are often viewed by investors as a sign of a company's strength and that the company's management has positive expectations around future earnings growth.
 - ✓ Makes the company more attractive to investors, which helps to drive the stock price higher
 - ✓ Alternative for income objective (retirees or pension funds) investors by choosing companies that have a track record of attractive dividends

Class 14

- *Dividends, and Dividend Policy:*

- The Concept and Relevance of the Dividends
 - ✓ As a rule, large, well-established companies are more likely to pay dividends than start-ups or smaller firms
 - ✓ Businesses that have paid attractive dividends historically may not do so in future if they're planning an acquisition or other investment that requires large amounts of cash
 - ✓ The issue can take many different forms including cash, stocks, property, and scrip among others
 - ✓ Tax impact: In most countries, it is a taxable income for the shareholders, and the tax amount on the same is deducted at source, i.e., by the company at the time of distribution

Class 14

- Dividends, and Dividend Policy:

- The Concept and Relevance of the Dividends
 - ✓ More often in Large-cap stocks and well-established **public companies** - companies which list their shares on the public stock exchange allowing the trading of shares to the common public
 - ✓ Example: *AT&T has over 30 years of history of providing dividends, with their 2021 yield being 7.43% @ \$2.08 / share*
 - AT&T stocks attracts investors for offering a relatively steady income over and above the earnings that can come through their sales

Ex/EFF DATE	TYPE	CASH AMOUNT	DECLARATION DATE	RECORD DATE	PAYMENT DATE
07/08/2021	CASH	\$0.52	06/25/2021	07/09/2021	08/02/20
04/08/2021	CASH	\$0.52	03/26/2021	04/09/2021	05/03/20
01/08/2021	CASH	\$0.52	12/11/2020	01/11/2021	02/01/20
10/08/2020	CASH	\$0.52	09/25/2020	10/12/2020	11/02/20
07/09/2020	CASH	\$0.52	06/26/2020	07/10/2020	08/03/20
04/08/2020	CASH	\$0.52	03/27/2020	04/09/2020	05/01/20
01/09/2020	CASH	\$0.52	12/13/2019	01/10/2020	02/03/20
10/09/2019	CASH	\$0.51	09/26/2019	10/10/2019	11/01/20
07/09/2019	CASH	\$0.51	06/28/2019	07/10/2019	08/01/20
04/09/2019	CASH	\$0.51	03/29/2019	04/10/2019	05/01/20
01/09/2019	CASH	\$0.51		01/10/2019	02/01/20
10/09/2018	CASH	\$0.50	09/28/2018	10/10/2018	11/01/20
07/09/2018	CASH	\$0.50	06/29/2018	07/10/2018	08/01/20
04/09/2018	CASH	\$0.50	03/30/2018	04/10/2018	05/01/20
01/09/2018	CASH	\$0.50	12/15/2017	01/10/2018	02/01/20

Source – NASDAQ

Chronology:

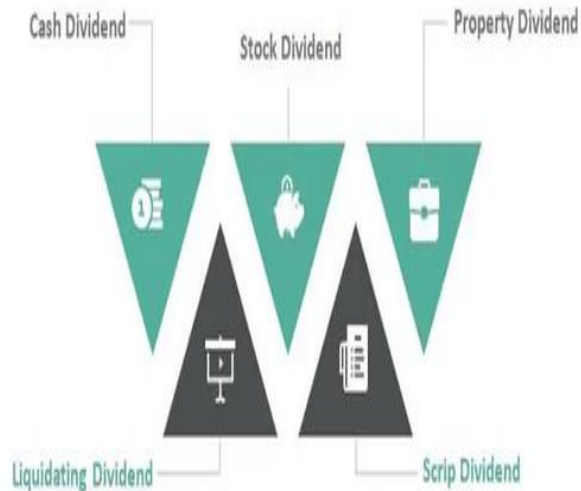
- 1) Declaration Date: Management announces the upcoming dividend distribution, payment amount, and the payment issue
- 2) Ex-Dividend Date: Cut-off date
- 3) Record Date: The company decides on the list of shareholders who will receive the payment
- 4) Payment Date: Date when the payment is executed

Class 14

- Dividends, and Dividend Policy:

➤ Types of Dividend:

Example: Midterm international Ltd, on January 1, 2021, held the meeting, and declare:



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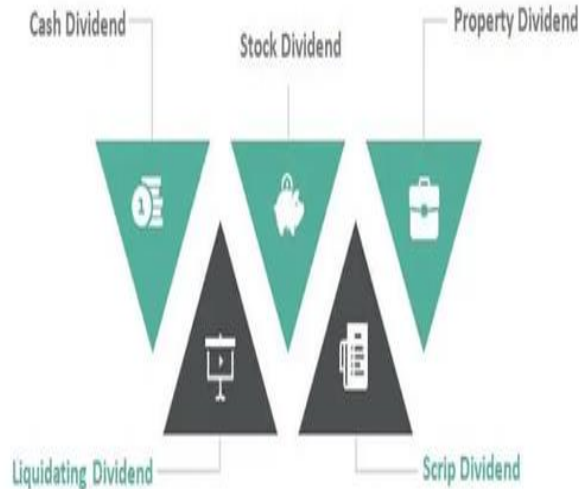
- A. Cash Dividend: Cash payment of \$1 / share was declared on the company's outstanding shares, the total outstanding shares of the company are 3,000,000 – Cash Dividend Paid \$3,000,000
- B. Stock Dividend - a payment of additional shares instead of cash to shareholders as a form of return on their investment in the company – paid out pro-rata - based on the number of shares. The business declares a 15% stock dividend-every shareholder receives an additional 15 shares for every 100 shares of ownership
- C. Assets - pay out other assets: investment securities, physical assets, or real estate (not a common practice)

Class 14

- Dividends, and Dividend Policy:

➤ Types of Dividend:

Example: Midterm international Ltd, on January 1, 2021, held the meeting, and declare:



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Stock Splits is similar to a stock dividend, except that a split is expressed as a ratio instead of a percentage

- ✓ When a split is declared, each share is split up to create additional shares
- ✓ For example, 3:1 stock split, each old share is split into three new shares

*Apple's stock has split **five times** since the company went public. The stock split on a 4-for-1 basis on August 28, 2020, a 7-for-1 basis on June 9, 2014, and split on a 2-for-1 basis on February 28, 2005, June 21, 2000, and June 16, 1987 source: www.nasdaq.com*

Corporate Action: Stock Reverse Split

- ✓ To decrease the number of shares
- ✓ For example: 1:10 reverse stock split each investor exchanges 10 old shares for 1 new share to reduce the number of its shares outstanding, and the prices is adjusted proportionally

Priceline.com (NASDAQ:BKNG) is the biggest winner. It went through a 1-for-6 reverse split in 2003 when the online travel portal was flopping around after the dot-com bubble burst source: www.nasdaq.com

Class 14

- Dividend Policy and Other Pay outs:

- Dividends, and the Impact in the Business Value

The total market value of a company *does not change* if the business pays cash dividends or issues more shares

- ✓ In the case of cash dividends, the price of the stock has implicit the value of the dividend
- ✓ In the case of stock dividends, the market value is spread over more shares by reducing the value of the shares to compensate for the increased in the number of shares

Example: *A business has a total market value of \$10 million and it has 1 million shares outstanding, then each share should sell on the open market for \$10/share. If the company then issues a 15% stock dividend, there are now 1,150,000 shares outstanding, but the market value of the entire firm has not changed. Thus, the market value per share after the stock dividend is now $\$10,000,000 / 1,150,000$, or \$8.70.*

Class 14

- *Dividend Policy and Other Pay outs:*

- Factors affecting payout ratios
 - Reasons for Low Dividend
 1. Taxes
 2. High Issuing Costs
 - Reasons for High Dividend
 1. Information Asymmetry
 - Dividends as a signal about firm's future performance
 - Lower Agency Costs
 - capital market as a monitoring device
 - reduce free cash flow, and hence wasteful spending
 - Bird-in-the-hand: Theory or Fallacy?
 - Uncertainty resolution
 2. Desire for Current Income

Class 14

- *Dividend Policy and Other Pay outs:*

- Industries that pay high dividend payout ratios
 - Utilities, transportation companies, financial institution and companies involved in heavy manufacturing firms tend to have high leverage and high dividend payouts in all countries.
 - Regulated companies and firms with stable cash flows and stable asset bases tend to have high leverage and high payouts
 - Service firms, high-technology companies and firms with highly variable earnings (e.g., mining) have low dividend payout ratios
 - Companies operating in a volatile industry or which must make ongoing and high-risk discretionary investments in new technologies have low dividend payouts

Class 14

There is no optimal payout ratio but rather the industry benchmark

A firm should not reject positive NPV projects to pay a dividend

Personal taxes and issue costs are real-world considerations that favor low dividend payouts

Many firms appear to have a long-run target dividend-payout policy

There appears to be some value to dividend stability and smoothing

